
Disability Services Research Partnership

Results-based Funded Supported Employment: Avoiding Disincentives to Serving People with Greatest Need

February 2003

**Anne Corden and Patricia Thornton
Social Policy Research Unit
University of York**

THE UNIVERSITY *of York*

S | P | R | U

Disclaimer

The views expressed in this report are the authors' own and do not necessarily reflect those of Jobcentre Plus or the Department for Work and Pensions.

Contents

	Page
List of Tables	i
Acknowledgements	iii
List of Abbreviations and Acronyms	v
Executive Summary	vii
1 Introduction	1
1.1 The WORKSTEP Reforms	1
1.1.1 The Consultation Document	1
1.1.2 Responses to the Consultation	2
1.1.3 The Ministerial Statement	3
1.1.4 The Programme Design	3
1.2 Conduct of the Review	5
1.3 Differences in Supported Employment	5
1.4 Structure of the Paper	5
2 The Rationale for results-based funding	7
2.1 Introduction	7
2.2 The Need for New Approaches	7
2.3 Results-based Funding Mechanisms – Potential Opportunities and Advantages	8
2.4 Potential Drawbacks and Disadvantages	10
3 Results-Based Funding Models	13
3.1 US 'Milestones' and Variants	18
3.1.1 Oklahoma	18
3.1.2 Massachusetts	20
3.1.3 Kentucky	21
3.1.4 Rhode Island	21
3.1.5 Pennsylvania	22
3.1.6 Alabama	22
3.1.7 New York Office of Mental Health: Performance Based Contracting Demonstration	22
3.2 Australian Case Based Funding Trial for Disability Employment Assistance	24
3.3 New Zealand	25

4	Addressing the Problem of Creaming	27
4.1	Introduction	27
4.2	Setting Overall Payment Levels to Meet Client Needs	28
4.3	Making the Various Outcome Payments Reflect Provider Risk	29
4.4	Tiered Structure, to Accommodate Client Groups with Different Levels of Need	30
4.5	Setting a Quota	32
4.6	Person Specific Funding, to Match Individual Needs	32
4.7	Blending Payments for Services and Results-based Funding	32
4.8	Accepting Clients for Service Provision	33
4.9	Summary	34
5	Reviewing the Evidence	37
5.1	The Evaluations	37
5.1.1	Milestones in USA	37
5.1.2	Case Based Funding Trial, Australia	37
5.2	Findings	38
5.2.1	Milestones in USA	38
5.2.2	Australian Case Based Funding Trial	38
5.3	Discussion	40
6	Implications for WORKSTEP	41
6.1	A Tiered Structure?	41
6.2	Selection on to the Programme	42
6.3	The Blended Model	43
6.4	Policy Implications	45
	References	47

List of Tables

	Page
Table 1.1 WORKSTEP payment structure (excluding Remploy)	4
Table 3.1 Results-based funding models: the main structural features	14
Table 3.2 Oklahoma four funding tiers	18

Acknowledgements

The report was made possible by speedy response to the authors' request for information, and we are grateful for such generous help. In particular, we would like to thank the following people.

In the USA, Grant Revell expressed interest in the work and discussed the US context, sent documents and original material from his presentations, and made contacts on our behalf. Dan O'Brien, a key person in the design of the original Oklahoma Milestones, discussed issues that arose while writing the report. Bill Deschenes of the New York State Education Department sent documents.

In Australia, Susan Thomson sent a paper she wrote for the Department of Family and Community Services, reviewing the US programmes, and alerted us to the recent publication of reports on the Case Based Funding Trial.

In New Zealand, Pam Crothall, Regina Pernice and Anne Bray made enquiries on our behalf, and pointed us to relevant documentation.

List of Abbreviations and Acronyms

ADRS	Alabama Department of Rehabilitation Services
CBES	Community Based Employment Services
CBFT	Case Based Funding Trial
DEA	Disability Employment Adviser
DEWRSB	Department of Employment, Workplace Relations and Small Business
DRS	Department of Rehabilitation Services
DWI	Department of Work and Income
FaCS	Department of Family and Community Services
JSCI	Job Seekers' Classification Instrument
OMH	Office of Mental Health
VCU	Virginia Commonwealth University
VESID	Vocational and Educational Services for Individuals with Disabilities

Executive Summary

Introduction

In May 2002 the Social Policy Research Unit at the University of York conducted a review of results-based funding in supported employment systems. The context was policy makers' concern that the funding model in WORKSTEP, the modernised Supported Employment Programme, could discourage service providers from working with supported employees with the greatest support needs.

WORKSTEP reforms took effect from April 2001. Key elements were new eligibility criteria; targets for progression into mainstream employment; a new funding framework and the promise of quality standards.

The new payment structure for local authorities and voluntary body providers combined ongoing payments with outcome payments:

- payments for Development Plans (£500) and Job Starts (£250) support essential pre-entry work with new recruits
- Monthly Payments (different rates) fund the support needed by employee and employer
- payments for Progression to open employment (£500) fund new entrants
- payments for Sustained Progression after six months (£500) reflect need of some people for longer support
- availability of progression payments for existing employees helps providers invest in their development.

The researchers drew on known published material on supported employment in USA and Australia and on practitioner contacts leading to unpublished material. An Internet search was conducted in English. Results-based funding appears to be applied to employment services for disabled people only in USA, Australia and UK.

The Rationale for Results-Based Funding

The first models of results-based funding emerged in the USA during the 1990s. 'Milestones' developed in Oklahoma and spread rapidly to other states, and variants were influential in design of the Australian model.

Supported employment was added to the USA federal/state vocational rehabilitation scheme in 1986 and grew rapidly. A variety of purchase of service arrangements was used to fund employment services from provider agencies. There were moves away from input-based purchase arrangements (such as grant payments for staff). Payments were sometimes based on process (such as slot-based contracts for provision of specific activities) and increasingly on output to reflect product (for example, an hourly rate for job coaching).

Concerns were that since payments did not reflect quality of service, there were no opportunities for quality control; and there were no incentives to move clients on. At

the same time, there was concern that the high cost programme was not delivering outcomes valued by clients. Providers argued that payments did not match costs, and involved excessive bureaucracy.

Results-based funding appeared to offer potential opportunities. Such a model compensates providers for measured outcomes of service - the impact on participants of the programme results. The ultimate outcome reflects a change in the person, addressing initial assessment of their need. Intermediate outcomes may reflect contributory services. Outcomes must be valued by the client and measurable. Advantages then perceived include increased emphasis on valued outcomes; increased accountability; greater efficiency and effectiveness in delivery; and greater choice and satisfaction for clients.

For these advantages to be realised requires agreement between actors about clients' needs and desired outcomes, and what the programme can deliver; appropriate and achievable outcome measures; and payment levels which enable financial viability for providers.

Potential disadvantages have also been identified. Providers might select clients who are relatively easier to help ('creaming'). They might take advantage of contracts without adopting intentions ('gaming') or see conflict between achieving set outcomes and the overall mission of their organisation. There could be potential threat to quality of service, and competition between non-profit and business providers might act to reduce market choice.

Results-Based Funding Models

The underlying principle is that, following assessment of individual need for employment support, the provider supplies services to enable progression towards placement in a sustainable job. A small number of defined service outcomes, and in some cases additional process outcomes, serve as benchmarks, achievement of which results in payment to provider.

The full text explains in detail the main structural features and contextual background of the models studied, from data available in 2002.

The *Oklahoma Milestones* has been highly influential. In 2002 this model used six milestone payments for outcomes of assessment; job preparation; job placement; four weeks retention; ten weeks retention; and closure. There were two levels of funding ('regular' and 'highly challenged') in each of two models, reflecting different needs for preparation and enabling providers to offer appropriate levels of services (a 'tiered' structure). Quality standards were incorporated in service requirements for each benchmark payment.

Variants of Milestones were developed in *Alabama, Massachusetts, Kentucky, Rhode Island and Pennsylvania*. Some were 'blended models' with a mix of results funded service outcome benchmarks and additional support services with fee-for-service funding to enable providers to meet individual needs. Most fee-for-service payments were capped.

New York Office of Mental Health: a small pilot began in 2000 to enhance and develop existing results-based programmes, specifically to help some people with mental health conditions who failed to reach later milestones. Two additional milestone payments funded support for longer than usual, and an additional payment for support continuing beyond nine months aimed to increase job retention and assist with career advancement or job changes.

Australian Case Based Funding Trial for Disability Employment Assistance: was part of a broad reform of rehabilitation and employment services. Initially, a Job Seekers' Classification Instrument assigned clients to one of three funding levels. There was then one payment for employment outcome, and two sets of monthly payments, from commencement of service and for maintenance after placement, respectively. Evaluation suggested that some people were disadvantaged by this model. Two new assessment instruments were developed for Phase 2 with adoption of five funding levels.

Addressing the Problem of Creaming

A results-based funding scheme creates incentives to serve those clients who can most quickly and easily be brought to the payment points ('creaming'). A related problem is leaving behind clients thought likely to need more services to reach outcomes, and sacrificing later outcome payments ('parking').

Structural approaches to these potentially serious problems in supported employment aim to maintain providers' confidence that they can manage the perceived economic risk. Different approaches revolve around ways of:

- ensuring overall economic viability in the programme
- setting different benchmarks for clients with greater needs
- providing higher compensation for providing services to client groups or individuals with greater needs, for example in a tiered structure
- providing additional fee-for-service funding to meet needs of individuals, for example in blended models
- requiring 'quotas' of people with greater needs among outcomes
- external control and management of referral of clients to providers.

Reviewing the Evidence

The Oklahoma Milestones has been reviewed via a series of interviews with key vocational rehabilitation personnel and provider surveys. The approach is generally reported as a success. Reduction of clients assessed but not placed in work suggests that the model has some effect in reducing 'parking'.

The interim report from evaluation of the Australian trial concluded that there was no pattern of 'under-servicing' clients who do not achieve an outcome, but the model had not entirely eliminated either creaming or parking. Suggestions for reducing parking further included replacing the ongoing payments with more milestone payments; adjusting weightings of both ongoing and outcome payments; and improved client tracking and audit.

Implications for WORKSTEP

The review, by design, did not address potential advantages and opportunities in paying supported employment providers for results. Focusing on the main potential disadvantage raises the following issues in the WORKSTEP context.

Fundamental to the US and Australian models is the concept of 'categorisation' of clients. Scoring a person's need for employment support is no easy task. Developing appropriate instrumentation in the UK would require time and resources, and raise complex administrative issues. Moreover there is increasing rejection in the UK of categorising people on the basis of disability. Current eligibility criteria for WORKSTEP are fairly broad based, and development of a 'tiered structure' might involve looking for simple proxies for need for support that fit a social model of disability.

Selection of clients for WORKSTEP depends on some discretionary decisions and working relationships between providers and Disability Employment Advisers. This stage of referral and acceptance is receiving increasing attention within the USA and Australia. It will be important to understand ways in which people are referred for the WORKSTEP programme, and to monitor reasons for non-acceptance by providers and characteristics of people not accepted.

According to the theory underpinning the US models, which weights benchmark payments according to risk involved, the first WORKSTEP benchmark payment appears relatively high. There are no requirements for subsequent outcome payments to be linked back to the Development Plan, considered important in US models for maintaining quality of service and progression. The uncapped monthly payments in WORKSTEP may provide incentives for some providers to stop aiming for the progression benchmark. Any consideration of lowering monthly rates, however, must take account of the fact that, realistically, providers may have relatively large numbers of clients who continue to require ongoing support services after placement.

The need to protect those people who will continue to need considerable support to sustain employment represents quite a challenge for the WORKSTEP payment model. It might be worth considering whether potential incentives for adverse selection could be reduced further by:

- making more links between the Development Plan and later benchmarks
- making continuation of ongoing payments contingent on reviewing the Development Plan, with management of this process by a third party
- introducing 'targets' in terms of proportions of participants achieving later benchmarks which each provider must meet.

Considerable importance is attached in other countries to dialogue and consultation with stakeholders to achieve a payment model that works well.

1 Introduction

Supported Employment has been an important element of Government programmes for disabled people since 1945, aiming to provide support in jobs for disabled people who face more complex barriers to finding and keeping work. Provision has grown and diversified over the years. The average number of disabled people participating in the Supported Employment Programme was just over 23,000 in the year April to March 2001. Nearly six in ten worked in supported placements with ordinary employers, an element of the programme that continues to expand, and the remainder worked in supported factories set up to employ disabled people.

Since April 2001, the modernised Supported Employment Programme, known as WORKSTEP, has operated a new model of outcome-related funding alongside new indicative progression targets and eligibility criteria focused on those who face the most significant barriers to working. In the context of policy makers' concerns that the funding model could discourage providers from working with supported employees with the greatest support needs, the Department for Work and Pensions asked the Social Policy Research Unit to carry out this review of results-based funding in supported employment systems.

The review was carried out in April and May 2002 and the findings were presented to the Department in May 2002 as a briefing paper. There was considerable interest in the paper and in January 2003 the Department asked the authors to prepare it for publication. Up-dated information on how WORKSTEP is being delivered has been added to the final chapter but otherwise no substantive changes have been made.

This introductory chapter begins by explaining the context and development of the changes introduced in April 2001. We then briefly outline how the review was undertaken. We conclude the chapter by briefly outlining differences in supported employment in the countries studied.

1.1 The WORKSTEP Reforms

This sub-section sets out the rationales for the reforms to the UK Supported Employment programme, and in particular for the introduction of the new funding regime.

1.1.1 The Consultation Document

A consultation on the Supported Employment Programme was launched in August 1999. The theme of the consultation document (Employment Service, 1999) was the

need to improve the rate of progression to open employment, which had stood at only two per cent per annum, and so release resources to enable new disabled people to enter the programme. Progression might need to include planned stages of support through the programme. The paper also sought views on a limited aftercare service to promote sustainable employment. Having explicit targets in contracts was raised as a possibility, although there would be a need to ensure that the programme did not become 'skewed' as a result. It was suggested that, in the longer term, quality standards might form part of contracted targets for the programme. Although not necessarily determined to alter the *per capita* grant mechanism, the Employment Service would be open to more 'radical' thinking, for example specific funding for separate aspects of the delivery process, or payment for achievement of negotiated contract targets.¹

1.1.2 Responses to the Consultation

The Summary of Responses to the consultation published in May 2000 (Employment Service, 2000a) highlighted intentions to develop: new entry and eligibility criteria to target people most requiring help; quality standards; and a funding regime that incentivises development and progression. Most respondents wanted the definitions of progression, and stages towards it, to be clearly set out. There was some feeling that personal development, acquisition of work skills and job progression, for example, should be recognised as well as movement off the programme. There was a mixed response to the principle of setting targets for progression but strong support for practices to ensure a good match between the person and the job, with an action plan to review progress.

Respondents' views on funding mechanisms varied. Some felt funding should relate to quality. Some saw no need for change. The report states broad support for the principle of individually-focussed funding mechanisms, whether time-limited or outcome-related, providing there is flexibility and no disincentive to including people needing longer term help. Focus group research with providers carried out for the Employment Service three years before the consultation had found a very strong feeling against contractual targets for progression, with concerns expressed about likely diversion of resources away from those with greatest need to those with most chance of success (CRG, 1996).

¹ The grant calculations in the previous Supported Employment Programme were complex but essentially involved some form of block grant.

1.1.3 The Ministerial Statement

In May 2000, at the same time as the response to the consultation was published, a Ministerial Statement on Modernising Supported Employment appeared (Hodge, 2000). The Minister announced the following to take effect from April 2001:

- new eligibility criteria (abolishing the productivity assessment) giving much greater priority to people claiming incapacity benefits, the aim being to make sure that help goes to those facing the greatest barriers in getting work
- targets to cover the number of new entrants who progress into mainstream employment within two years as well as progression of current employees – though whether targets would apply to individual contractors or to the programme as a whole was not specified
- a new funding framework, likely to retain the current funding support for existing employees, make available incentives to support existing employees who seek to progress into mainstream work, and encourage providers to support new recruits to progress into mainstream work within two years, which may involve payments at key stages and for outcomes.
- the promise of quality standards, to be monitored by providers themselves, the Employment Service and external inspection.

1.1.4 The Programme Design

Details of the modernised programme were set out in a programme design document (Employment Service, 2000b). Unlike the previous documents, this stressed safeguards for supported employees who need long term support and for those needing to return to the programme if their open employment does not work out.

The document announced targets for progression of ten per cent for existing supported employees and 30 per cent over two years for new supported employees recruited from 1 April 2001. It clarified that initially these would not be fixed targets binding on each provider but providers would be expected to work towards them. Targets would be adjusted in the light of experience for 2003-04 onwards.

Under a new development planning process (building on the existing action planning arrangements) all potential programme entrants need to have an agreed development plan, based on a vocational profile, before they can start a job in the programme.

Funding Arrangements

The rationales for new funding arrangements given in the programme design document were as follows:

- additional payments if existing supported employees progress will assist providers to invest in their development.
- development plans and job start payments will support essential pre-entry work with new recruits to ensure the individual can begin their supported job with a clear plan of action agreed with their employer, and will ensure there are effective arrangements in place for them to learn their job and develop further as an employee
- monthly payments will fund the provider to offer the support needed by the employee and employer
- payments for progression to an unsupported job will enable the cycle to begin again with a new employee
- a further payment will be available where the individual continues working after progression for six months. The second stage payment is designed to reflect the need of some people for some support after progression.

Payment Structure

The payment structure for local authorities and voluntary bodies is shown in Table 1.1. It combines ongoing payments with outcome payments.

Table 1.1 WORKSTEP payment structure (excluding Remploy)

	Existing employees		New employees	
	Full-time	Part-time	Full-time	Part-time
Development Plan	n/a	n/a	£500	£500
Job Start	n/a	n/a	£250	£250
Monthly Payment	£396.68	£198.34	£320	£160
Progression	£500	£500	£500	£500
Sustained Progression	£500	£500	£500	£500

Source: *WORKSTEP: A Handbook for Providers*

We are not aware of any publicly available documents explaining why payments were set at these levels. However, personal communication from the Department for Work and Pensions explained that the comparatively high level of up-front payments for new employees was introduced to incentivise providers to invest in the development planning process, an aspect which received limited attention in the previous Supported Employment Programme.

1.2 Conduct of the Review

As a result of other research conducted for the Department for Work and Pensions and its predecessor departments (Corden and Thornton, 2002; Riddell, 2002), the authors knew of the existence of results-based funding of supported employment in the USA and Australia. After reviewing published material we contacted researchers at Virginia Commonwealth University in the USA, leading us to useful unpublished material and practitioner contacts. At the same time, we searched on the Internet, using key words, and used our networks in the field to establish whether results-based funding systems existed in other countries. We restricted our search to employment services for disabled people and did not search in languages other than English.

While we cannot be completely certain, it seems that results-based funding is not applied to employment services for disabled people in other European countries or in English-speaking countries other than the USA, Australia and the UK (where it also applies in the New Deal for Disabled People extension). Information we received suggests that outcome-related funding whereby providers are rewarded for meeting overall targets, rather than individualised funding, is relatively common although block grant funding still exists.

1.3 Differences in Supported Employment

Before engaging with the rationale for and details of results-based funding, we should remember that supported employment differs in the countries studied. In the USA, challenges to the philosophy of sheltered work encouraged the development of supported employment as an alternative delivery model. Supported employment was first defined by US law in 1986. Its essence is competitive, employer-paid work in integrated work settings, in which support is provided for as long as needed, for individuals with 'severe disabilities'. Supported employment in Australia is closer to the WORKSTEP approach, involving small businesses as well as individual supported jobs.

1.4 Structure of the Paper

Chapter Two sets out the rationales for results-based funding and discusses potential opportunities and drawbacks. Chapter Three is largely descriptive, summarising and explaining the main structural features of the models studied, and providing contextual background information. The main features are summarised in Table 3.1. The problems of 'creaming' and 'parking' are discussed in Chapter Four. Chapter Five discusses what evidence there is as to whether creaming has been prevented

by design features in the various results-based funding models for supported employment. Finally, Chapter Six considers the implications for WORKSTEP.

2 The Rationale for Results-Based Funding

2.1 Introduction

The first models of results-based funding for supported employment emerged in the USA during the 1990s. The 'Milestones' approach, developed originally for Oklahoma, spread rapidly to other states during the late 1990s and variants of Milestones were influential in the design of the Australian Case-based Funding Trial for disability employment assistance, which ran from 1999 to 2002.

This chapter discusses the background to the emergence and adoption of these new funding models. The first section explains how concerns in the USA about apparent stagnation of supported employment during the late 1980s, along with pressure for greater efficiency and accountability generally in the public sector, led to a search for new approaches. Results-based funding appeared to offer a number of advantages and opportunities for all the key groups involved, as described in section 2.2. Possible disadvantages of results-based funding were also acknowledged from the outset. Section 2.3 discusses these problems, including the potential danger that providers would see incentives to serve people with least need and disincentives to serve those with greatest need.

2.2 The Need for New Approaches

Supported employment grew rapidly in the USA from 1986 when it was added to the federal/state vocational rehabilitation programme. Bringing together traditionally time-limited vocational rehabilitation with long-term support for disabled people in integrated work settings required major redesign of state agency funding arrangements. Novak *et al.* (1999a) explain that in the late 1980s a variety of purchase of service arrangements were being used to fund employment services from provider agencies. With increasing emphasis on clients' individual service requirements, input-based purchase of service arrangements (for example grant payments for staff, facilities, programme participants) became less appropriate. Process-based purchase of service agreements were sometimes adopted, based on slot-based contracts for provision of a specific activity (such as job coaching). Increasingly, there were moves towards output-based funding arrangements. Fees for service were arranged to reflect the 'product' (for example, payment of an agreed hourly rate for job coaching) enabling different levels of reimbursement to reflect the needs of individual clients for that 'product'.

There were two main concerns about purchase of service arrangements attached to inputs, process or output. First, since the payments did not reflect the quality of service the arrangement offered no opportunity for quality assessment or control.

Secondly, such arrangements offered limited incentives to move clients on, for example towards open employment. Indeed, there might be incentives not to move clients on, if that meant loss of income. These concerns, although specific to supported employment, were being expressed within the USA at a time when there was a general move away from process-based funding approaches in public sector programmes towards more results-based approaches, with the general aim of achieving better value for public money and more valued outcomes for clients. There was increasing emphasis, across public sector programmes, on greater accountability for use of public funds, incorporating performance review and outcome measurement.

At the same time, within the US vocational rehabilitation movement, there was general concern that supported employment had lost momentum during its first decade (Wehman and Kregel, 1995). Large numbers of disabled people were still moving into sheltered work which they did not want to do. Conversions from day programmes to integrated employment were very slow, and there was general under-capacity in the programme, with long waiting times for some people. Expansion in consumer choice and increased opportunities for self-determination were not being delivered. Clients wanted more choice of career, better jobs, higher wages and more integrated settings. The high cost supported employment programme was not delivering outcomes valued by clients. At the same time, providers argued that their purchase of service agreements did not match the real costs of service, and involved them in excessive paperwork and bureaucracy.

New funding mechanisms would, it was argued, make some contribution in addressing the above challenges facing supported employment. There was a readiness to consider the potential advantages of funding models which made payment to providers contingent on outcomes of service provision.

2.3 Results-based Funding Mechanisms – Potential Opportunities and Advantages

In results-based funding models providers are compensated according to the measured outcome of the service they have provided. The model depends on being able to identify and measure appropriate components of targeted outcomes to which payments can be attached. In terms of human services provision, the outcomes are the impact on participants of the results of the programme.

If the service is designed to respond to needs, there is usually an initial process of some kind of assessment of need and the ultimate outcome reflects a change in the person, to address the assessed need. It may be sensible to distinguish some intermediate outcomes if an overall programme includes a number of services, each

of which can be expected to produce an impact. On the other hand, the focus may be simply the ultimate programme outcome, which is likely to represent a substantial longer-term change in the client's life experience. In terms of supported employment programmes, the client's need is a service to help them achieve employment, and the ultimate desired outcome is likely to be a valued job in an integrated employment setting. Intermediate outcomes might include understanding of skills, aptitudes, and support needs (an outcome of assessment) or securing a job which matches requirements (an outcome of placement). What is important is that the outcomes are those to which the client attaches value.

The eventual design of the results-based funding model adopted for any programme will depend not only on decisions about which outcomes to measure and how these are to be quantified, but also on how 'value' is to be incorporated within the measure. Thus a measure of the ultimate outcome of a supported employment programme might include quantifiable components of the job to which clients attribute value, such as wage level; pension, holiday and sickness arrangements; opportunities for career progression; and levels of integration in the workforce. Some of these components are easier to measure than others.

Novak *et al.* (1999b) identify the advantages of results-based funding approaches in supported employment as:

- *Increased emphasis on valued outcomes*
Since payments to the provider are attached to outcomes which are valued by the client, the focus in service delivery attaches to meeting clients' needs, client progression and satisfaction, rather than (as possible with payments attached to input, process and output) providers' priorities.
- *Increased accountability*
By making apparent the match between different components of service and outcomes of service it is easier to see how resources can best be used to achieve programme aims.
- *Greater efficiency and effectiveness in delivery*
Careful selection of the outcomes which attract payment and good design of the measurement and recording instruments can eliminate much of the detailed process and output recording/reporting that is otherwise so time consuming, and reduces the time which providers can spend with clients. Requiring evidence of outcome, rather than process or output, gives the provider more flexibility in service delivery, and imposes fewer structural constraints.

- *Greater choice and satisfaction for clients*

Clients' satisfaction will reflect the extent to which outcomes are appropriate and achievable. Client choice can be structurally incorporated, as a component of outcome.

For these advantages to be realised there are various prerequisites:

- there must be agreement between key actors about clients' needs and desired outcomes, and what the programme can deliver
- outcome measures must be appropriate and achievable
- payments attached to outcomes must enable providers to achieve and retain financial viability.

Once the funding model is established, there will be some degree of self-correction in the above, if there is scope for adjustment. For example, experience of running the model may suggest introducing additional measures or adjusting the level of payments attached to particular outcomes. The model also introduces a form of regulation and quality assurance. Providers unable to maintain quality of service required will fail to attract further funding, while those who do deliver may have scope for expansion and development of service.

In order for providers to retain financial viability (the third prerequisite above) overall levels of payment available to them must incorporate the costs of providing services to clients who do not reach outcomes attracting payment. Otherwise, of particular relevance in this paper, unwanted structural incentives and disincentives towards selection or exclusion of particular groups of potential clients will creep in. This is discussed fully in Chapter Four.

2.4 Potential Drawbacks and Disadvantages

The rationale for results-based funding includes acknowledgement of potential disadvantages, and Frumkin (2001) sets out the five main doubts that have emerged:

- '*creaming*' - payments may be made to providers who take the easiest route, avoiding clients who most need service and concentrating on clients who are relatively easier to help
- '*gaming*' - providers take advantage of the letter of their contract without adopting the intentions

- *conflict with overall mission of provider organisation* – some providers operate within an overall set of values and beliefs which is wider than the outcome of the service. Missions such as community well-being or empowerment may not match easily with outcomes identified for measurement and payment
- *potential threat to quality* – in situations in which many providers of similar programmes must compete for contracts and lower cost options are attractive there is a danger that quality will not be maintained
- *competition between non-profit and 'business' providers* – personnel will require new skills/training for new roles, creating problems for non-profit organisations without up-front resources, and giving business providers a competitive edge. This might act eventually to reduce market choice.

Among the above concerns, those which are considered most significant in the US supported employment situation are potential reduction of quality of service and creaming. The selection problem of creaming is considered a serious problem (Frumkin, 2001) which has been addressed structurally in the original Milestones model and subsequent variants. Understanding how structural aspects might reduce or prevent creaming requires some grasp of the main features of the various models. The following chapter summarises the models studied.

3 Results-Based Funding Models

This chapter is largely descriptive, summarising and explaining the main structural features of the models studied, and providing contextual background information.

The underlying principle in all the models is that, following assessment of a client's individual need for employment support, the provider organisation supplies appropriate services to enable progression towards placement in a sustainable job. Within each model there is a small number of defined service outcomes which serve as 'benchmarks', and in some cases additional process outcomes, the achievement of which by individual clients results in payment to the provider. The basic structural features of the models are presented in Table 3.1.

When studied, these models were at different stages of development. Oklahoma Milestones was first piloted in 1992, whereas the first stage of the Australian Case-Based Funding Trial was first offered to providers in October 1999, and the WORKSTEP model started in April 2001. Some of the earlier models have been adjusted several times in light of experience. The descriptive material presented in Table 3.1 was the most recent data available to the researchers in May 2002. It may not be completely up-to-date but this is not considered a problem, for the purposes of this paper. In a similar way, we were expecting some of the details of the models to undergo further changes in the near future. One of our findings is that the models evolve and develop, both as part of the 'self-correcting' process described in the previous chapter, and in response to policy direction. Where there have been major important changes in specific models this is explained in the text.

The text following Table 3.1 also includes contextual material which is helpful in understanding the background to each of the models, and the sometimes different policy environments in relation to support for disabled people in work. In looking for lessons from abroad it is always important to remember that what appears to work well in one country or state may not be immediately transferable to a different context.

Table 3.1 Results-based funding models: the main structural features

Model	Services	Funded service outcomes/process	Payment points	Weight	Amount paid
Oklahoma Milestones piloted 1992 state wide 1997 (data as at 2002)	from providers selected by competitive bids, by Oklahoma Department of Rehabilitation Services (DRS) case managed by DRS counsellor assists around 1600 new clients each year	(preparation, place/train regular rate) Assessment Job preparation Job placement 4 weeks retention 10 weeks retention Closure	benchmark: completion of assessment and benefits analysis benchmark: achievement of Job Club competencies and job plan benchmark: placement in job matching goal benchmark: retention of suitable job for 4 weeks benchmark: retention of/satisfaction with job benchmark: +90 days in stabilised work	7% 7% 11% 22% 18% 34%	Total \$6800
Massachusetts piloted 1996 state wide 1998 (data as at 2002)	from providers contracted by interagency Community Based Employment Services (CBES) case managed by CBES assists up to 2000 new clients each year	Assessment Job placement Initial support services Additional support (at each stage)	benchmark 1: plan for assessment benchmark 2: completion of assessment benchmark 1: plan for career benchmark 2: job placement benchmark 3: 20 days employment benchmark 1: 20 days employment benchmark 2: 40 days employment after stabilisation, and extended support plan time increment: hourly rate	15% in 2 payments 42% in 3 payments 43% in 2 payments	\$530 \$795 \$1440 \$1440 \$720 \$1510 \$2265
Kentucky developed 1995 revised 1998 (data as at 1999)	from providers contracted to state rehabilitation service	Assessment Job development Placement Additional support	time increment: hourly rate time increment: hourly rate benchmark: placement +60 days employment time increment: hourly rate		\$30 per hour (cap of \$750) \$30 per hour (cap of \$750) \$3000 \$30 per hour

Model	Services	Funded service outcomes/process	Payment points	Weight	Amount paid
Rhode Island state wide 1991 revised 1999 (data as at 1999)	from providers contracted to state rehabilitation service	Assessment Job development and placement Training and ongoing support Additional support	benchmark: completion of assessment benchmark 1: job search plan benchmark 2: placement + one month in work time increment: weekly rate time increment: hourly rate		\$400 \$500 \$800 \$200 per week (cap of 20 weeks) \$15 per hour
Pennsylvania proposed state wide in 2001 (data as at 2001)	from providers contracted by Pennsylvania Office of Vocational Rehabilitation	pre programme assessment Job development Placement Job retention Stabilisation	fee benchmark: completion of training plan benchmark: placement + 5 working days benchmark: 45 calendar days employment benchmark: at least 90 days stable employment	15% 35% 25% 25%	personalised total budget
Alabama piloted 1998 state wide 1999 (data as at 1999)	from providers contracted by Alabama Department of Rehabilitation Services	Determination of need Hire Job retention Stabilisation Closure	benchmark: completion of assessment benchmark: placement + 3 working days benchmark: continued employment with successful adjustment benchmark: at least 4 weeks employment at weekly hour goal benchmark: at least 90 days stable employment beyond stabilisation	15% 15% 20% 20%	fixed budget as per provider contract

Model	Services	Funded service outcomes/process	Payment points	Weight	Amount paid
New York Office of Mental Health 2 year pilot starting 2000 evaluation 2003 (data as at 2001)	from 7 selected providers who already provide supported employment services to New York State Office of Vocational and Educational Services for Individuals with Disabilities expected to assist 420 clients in pilot over 2 years	Life skills assessment Career planning and job placement Job skill acquisition Retention 1 Retention 2 Retention 3 Ongoing support	benchmark: completion of vocational assessment benchmark: placement + 3 days employment benchmark: 4 weeks employment, with basic skills benchmark: 3 months employment, 5 hours weekly benchmark: 6 months employment, 10 hours weekly benchmark: 9 months employment, 20 hours weekly additional payment beyond 9 months	10% 10% 20% 20% 25% 15%	\$750 \$750 \$1,500 \$1,500 \$1,875 \$1,125 \$1,300
Australia Case Based Funding Trial for employment assistance Phase One Nov 1999 – June 2000	from agencies providing employment assistance (open and supported) to Department of Family and Community Services in 15 trial regions	Commencement of assistance Job placement and support Ongoing support Employment assistance	benchmark: agreement of employment assistance plan by 8 weeks benchmark: 26 weeks employment, 8 hours weekly benchmark: after 12 months, if outcome achieved, paid up to 18 months benchmark: date of commencement 1. up front payment \$1000 2. 10 monthly ongoing payments	75% funding level (1-3) 25% funding level (1-3) 70% funding level (1-3) 75% funding level (1-5)	
Phase Two Jan 2001 – ongoing (data as at 2002)	Overall, 8 per cent of trial participants in supported employment	Job placement and support Ongoing support and maintenance	benchmark: 26 weeks employment, 8 hours weekly benchmark: after 12 months employment, or when outcome achieved within 18 months monthly payments	25% funding level (1-5) 70% funding level (2-5)	

<i>Model</i>	<i>Services</i>	<i>Funded service outcomes/process</i>	<i>Payment points</i>	<i>Weight</i>	<i>Amount paid</i>
UK Workstep introduced 2001 (data as at 2002)	from circa 220 providers contracted by Employment Service	Assessment Placement Training and ongoing support Progression Sustained progression	new entrants (excluding Remploy): benchmark: development plan benchmark: commencement in supported employment time increment: monthly rate benchmark: job retention without support benchmark: 26 weeks unsupported employment		£500 £250 £320 per month (full time employees) £500 £500

3.1 US ‘Milestones’ and Variants

3.1.1 Oklahoma

The Oklahoma Department of Rehabilitation Services (DRS) provides various services for disabled people, including supported employment. Within DRS rehabilitation counsellors have responsibility for case management, coordination of services and counselling for disabled people. Initial assessments on the basis of severity of disability assign a client to one of four priority groups in relation to access to funded services. People in priority group 1, who have substantial functional limitations in three or more major life areas (for example self-care, mobility, learning) and need multiple services over an extended period of time, are most likely to be offered supported employment and referred to a provider, whose contract covers the level of services needed, which is determined by the DRS counsellor.

The Milestone funding model for supported employment was developed within the Community Rehabilitation Services Unit as a response to dissatisfaction with existing fee-for-service models, as described in the previous chapter. The model was piloted in 1992 and was refined and re-piloted over a number of years before being adopted state-wide in 1997. A key part of this development was extensive consultation with existing non-profit providers, as it was considered essential to gain confidence for a transition which might otherwise seem financially threatening and which might challenge overall ‘missions’ in some organisations. Milestones has been highly influential and around 15 to 20 other US states are using variants of the model.

As shown in Table 3.1, one example of the Oklahoma model uses six milestone payments within an overall fixed price contract. Providers are advised how to bid to include the costs of people who do not meet the milestones (discussed in more detail in the following chapter) and the fixed prices are set according to the average overall bids. In May 2002 there were four separate contracts for services or clients with different needs: two levels of funding at a ‘regular’ rate and a ‘highly challenged’ rate in each of two models – place and train, and preparation, place and train, as depicted in Table 3.2. (This has evolved from earlier versions which set slightly different payment points and overall payment levels for people with mental health diagnoses and people with developmental disabilities.)

Table 3.2 Oklahoma four funding tiers

Model	Funding level	
Place and train	Regular rate	Highly challenged rate
Preparation, place & train	Regular rate	Highly challenged rate

A person is considered 'highly challenged' for purposes of payment of the higher rates if they meet two or more of the following criteria:

- requires a personal care attendant at the job site
- has exhibited as ongoing a documented pattern of explosive behaviour, physical aggression, self abuse or destruction of property which would jeopardise self or others at the work site
- during the last two years has experienced three or more events such as hospitalisation which interrupted work or ability to live independently
- evidence of rejection of the individual by other providers as too difficult to serve
- alcohol and/or substance abuse as a secondary disability which has resulted in loss of employment
- individual has borderline personality disorder, autism or deaf/blindness
- has had three or more changes of anti-psychotic medication in the past year or has concurrently prescribed four or more anti-psychotic medications
- requires assistive technology to succeed in employment.

A person considered to need the preparation, place and train stream of services is expected to need longer to develop a vocational plan, and typically will take part in at least 15 hours Job Club training before placements are considered, compared with a person in the place and train stream who clarifies vocational goals more quickly.

The four 'tiers' of funding in the Oklahoma model are designed to enable providers to offer clients the level of services that meet their needs, and are considered an important anti-creaming element, as explained in the following chapter.

Central to the Milestone model is the incorporation of quality standards in the service requirements for each benchmark payment. As an example, payment for retention depends on the clients receiving at least the minimum wage, and receiving intensive and substantial on- and off-the-job support required for adjustment to the integrated work setting. Only weeks in which hours worked exceed 40 per cent of job goal, and in which training and support are provided, count towards achieving the milestone. Documentation required by DRS to authorise retention payments includes employer verification, employer evaluation, a computerised milestone report, record of hours worked, benefits summary and client job satisfaction evaluation.

Providers may not refuse clients referred by DRS if their contract covers services needed by that person.

The DRS counsellor monitors the quality of placements and training, and authorises milestone payments.

Providers can only receive each milestone payment once for each client, but there can be breaks in service, for example during recurrence of illness. The client may

move to another provider, when they drop back to the placement milestone to prevent rejection by providers on the basis of insufficient funding left for that person. The DRS monitors breaks in service and authorises movement between providers.

DRS makes no further referrals to a provider which fails to maintain placements in employment of at least 50 per cent of clients who reach the first milestone.

When the client has concluded the programme, the DRS counsellor is responsible for identifying resources for ongoing or long term support, called employment maintenance. This is funded by different departments, frequently the Department of Human Services and often through the same provider which provided the supported employment rehabilitation programme.

3.1.2 Massachusetts

The Massachusetts model (see VCU, 2001; Thomson, 2002) was based closely on Oklahoma Milestones. Providers are contracted by the Community Based Employment Services (CBES). Unlike in Oklahoma, they have the right to refuse clients referred to them, but reasons must be documented to CBES, and will be considered in future referrals/contracting.

There are three main milestones in this model, but each has two or more benchmarks for payment purposes. A feature of this model is the availability of Additional Support Service payments at each stage, which enable the provider to meet individual needs - for example, an interpreter or additional job coaching. CBES must pre-authorise Additional Support Services, which are payable at an hourly rate for a maximum number of hours each month per client.

Central to the Massachusetts model is the idea of consumer choice and flexibility to meet individual goals. Each component of the model is thus designed to stand alone rather than as part of a continuum. Clients and advisers can choose which component is necessary to meet their employment goal. This design feature is believed to help bring clients into services more quickly, and to purchase only those services specifically needed to meet goals.

Further flexibility is built in by offering stand alone services for clients who need only short term support and less intensity of service than offered in the supported employment programme, and this is discussed further in the following chapter.

As with Milestones, the model aims to build in quality assurance, by setting service standards expected, and requiring evidence of service components received by clients. Thus the assessment milestone payment requires completion of progress reports which demonstrate that the provider has worked with the client to develop an

employment goal plan, with supports needed and proposed time line. Steps to achieve placement must be specified, roles and responsibilities clarified, and a benefits analysis provided to the client.

Models which mix results-based funding with other fee-for-service components are known in the literature as 'blended models'. There are examples right across the spectrum of blending. In Massachusetts most of the core service is funded by results. In other states, more of the core service is funded by payment of fees for service, as in Kentucky.

3.1.3 Kentucky

The Kentucky model (see Novak *et al.*, 1999b) was being developed at the same time as the Massachusetts model, but uses a rather different approach. Only one service outcome is results funded - a supported employment placement. Providers offer a similar range of other components of service as in the previous models described, including assessment and job development services, and additional support in work, but these are all funded on an hourly fee-for-service basis, with caps on pre-placement provision.

The outcome payment attached to the placement benchmark has stringent criteria. Four requirements must be met for payment for a placement, after 60 days:

- minimum 60 days employment in job consistent with work plan
- client satisfaction with job
- number of hours worked is satisfactory
- extended services supports are in place.

Central to this model is the importance attached to client and employer satisfaction, and quality and stability of services.

3.1.4 Rhode Island

Rhode Island provides a further example of a blended model (see Novak *et al.*, 1999b). Results-based funding was made state wide as early as 1991 in Rhode Island, and the model was revised in 1999. In this model, as in Kentucky, there is state-wide fixed reimbursement for placement, with fairly rigorous criteria for definition of successful placement. Pre-placement services are also funded by outcome. In this model it is the post-placement support that is funded on a fee for service, with caps on the number of weeks of training and ongoing support that may be provided to each client.

3.1.5 Pennsylvania

The distinguishing feature of the Pennsylvania model (see VCU, 2001) is that the results-based funding is person specific. The provider completes a comprehensive assessment and employment needs report for each client referred, on a fee basis. The Pennsylvania Office of Vocational Rehabilitation then determines the client's estimated hours of service needs, in terms of components such as job development, benefits coordination, job skills training and employer advocacy, and arrives at a total budget figure for that person. This is then distributed across the components, by percentages, arriving at the payment for that person's achievement of each milestone.

3.1.6 Alabama

The model developed for the Alabama Department of Rehabilitation Services (ADRS) was based directly on Oklahoma Milestones, with the providers' total budget per client determined by competitive bidding, as in the early versions of Milestones (Brooke *et al.*, 1999). Based on the Milestones experience, there was extensive consultation with all stakeholder groups when the decision was made to change from fee for service funding. Draft definitions of milestones, outcome indicators and quality indicators were widely distributed, and meetings held for discussion with stakeholders and the general public. There was a two phase pilot project, each phase being a six month trial with a small group of providers, and the originally proposed milestones were amended three times, before the model was extended to all remaining providers state wide.

The model depended on having qualified, well trained personnel in provider organisations, who were competent to deliver the quality of service built into the model. A training programme was designed for ADRS rehabilitation counsellors and provider job coaches by Virginia Commonwealth University, including classroom instruction, simulation exercises and study assignments, leading to the Alabama Supported Employment Milestones Certificate. Providers must demonstrate that job coaches working on results-based supported employment have this certificate before contracts are let.

3.1.7 New York Office of Mental Health: Performance Based Contracting Demonstration

The New York Office of Mental Health (OMH) has been piloting a results-based supported employment service designed specifically for people with mental health problems (VESID, 2002; Thomson, 2002). The approach adopted provides OMH funding to enhance and develop existing results-based supported employment

programmes provided by the Office of Vocational and Educational Services for Individuals with Disabilities (VESID), which is New York's federal vocational rehabilitation programme.

The project arose as a result of increasing emphasis on employment outcomes for OMH clients, along with experience in traditional VESID programmes that it was hard to help some people with mental health conditions, who failed to reach later milestones and were 'recycled' back into the system.

The small pilot involves seven OMH providers, and the aim is for each provider to serve 30 clients in each of the two years of the pilot (total 420 clients served). The pilot began in 2000 and will be evaluated in 2003.

The OMH funded enhancement, in respect of clients who meet significant disability criteria specified, includes an additional 20 per cent 'incentive payment' at the 90 day employment milestone; two additional milestone payments to fund support longer than usually reimbursed by VESID and an additional payment for support continuing beyond nine months. Provision of necessary flexible support at least up to nine months and possibly beyond will, it is hoped, increase job retention and assist with career advancement or job changes.

Clients eligible for participation are people who:

- have had, during the last two years, three or more inpatient hospitalisations each of four weeks or more, or a total inpatient time greater than twelve weeks, or
- have no work history and are over 25 years old, or had no competitive employment in the previous 60 months, or
- have had at least four job failures in the previous 12 months.

OMH has estimated that around 40 per cent of job seekers eligible for VESID supported employment would meet these criteria.

Participants are identified by providers or OMH, or may refer themselves. In addition to the above criteria they must meet the usual eligibility criteria for the state vocational rehabilitation supported employment programme. To ease access, for purposes of this pilot providers may complete the documentation necessary for determination of VESID eligibility, and receive a small payment for this. Normally, the VESID model requires at least 20 hours per week for payment for the placement milestone, but this has been reduced to five hours for participants in this pilot reflecting experience that there will often be a need to start by working just a few hours and building up gradually.

3.2 Australian Case Based Funding Trial for Disability Employment Assistance

Specialist disability employment assistance programmes of the Australian Department of Family and Community Services (FaCS) complement the mainstream labour market programmes managed by the Department of Employment, Workplace Relations and Small Business (DEWRSB). Employment Assistance services are provided by contactors who provide and support job opportunities in 'open employment' and 'supported employment' (the latter including sheltered employment, work crews and contract labour arrangements). The Case Based Funding Trial (CBFT) was the introduction and trial of new case-based funding arrangements, as part of broad reform of rehabilitation services and employment assistance.

The broad aims of the funding reforms were to:

- improve jobseekers' access to and choice of employment assistance, and enhance outcomes
- make funding arrangements between providers more equitable
- enable as many people as possible to receive employment assistance
- encourage flexibility and innovation in provision.

The trial is described in detail in a previous report by the authors for the Department for Education and Employment (Corden and Thornton, 2002). Phase 1 took place November 1999 - June 2000, and has been reported (AHA, 2000). Phase 2 commenced in January 2001 and an interim report was available when we undertook this review (AHA, 2002)².

In Phase 1, funding for job seekers was based on needs assessed through a Job Seekers' Classification Instrument (JSCI), which collected information on 18 factors found to be associated with longer term unemployment. There were three funding levels, which were distributed to the service provider at three major intervals:

- 75 per cent of payment at commencement of service (in 12 monthly payments)
- 25 per cent of payment on achievement of 26 week employment outcome
- 70 per cent of payment for maintenance (ongoing monthly payments).

Evaluation of Phase 1 suggested that some types of job seekers were disadvantaged by this model, discussed in detail in the next chapter. Two new assessment instruments were developed. Other modifications introduced for the Phase 2 model included adoption of 5 funding levels for employment assistance:

² The final evaluation report was published in October 2002 (Commonwealth Department of Family and Community Services, 2002a) along with a consultation paper on future options (Commonwealth Department of Family and Community Services, 2002b).

Level 1 - \$3000
Level 2 - \$5000
Level 3 - \$7000
Level 4 - \$11000
Level 5 - \$15000

It was expected that the following proportions of job seekers would be classified in each funding level as follows:

Level 1 10%
Level 2 42%
Level 3 22%
Level 4 18%
Level 5 8%

The main features of the Phase 2 model are shown in Table 3.1 and comprise:

- employment assistance payments of 75 per cent of payment level:
 - an upfront payment of \$1000 to cover the first two months prior to assessment for funding level for ongoing payments
 - ten monthly ongoing payments, depending on assessment scores, and agreed employment plan
- outcome payment of 25 per cent of funding level at 26 weeks employment, either eight hours weekly as self-employed or at wage covered by industrial agreements
- employment maintenance payments (at four levels of funding) after 12 months (if working) or if outcome achieved within 18 months (in 12 monthly payments), or, an independent worker payment for people who do not require on-the-job support beyond three months of outcome.

Findings from interim evaluation reports of this trial are relevant to discussion of creaming and are described in chapters following. Care must be taken, however, because only four per cent of CBFT Phase 1 job seekers received services from a supported employment agency; most received services from an 'open employment' provider. Analysis of participants in supported employment is based on only 80 people who achieved an outcome.

3.3 New Zealand

In September 2001 the New Zealand Government launched its 'Pathways to Inclusion' strategy, with the aim of providing genuine employment opportunities for

disabled people (NZ Department of Labour, 2001). A new direction for vocational services will aim to enable greater participation of disabled people in both employment and communities.

Following a formal review of vocational services for disabled people, the Government decided to repeal a 1960 Act which exempted employers of disabled people in sheltered workplaces from minimum wage and holiday legislation, and to review a 1975 Act which governed funding of vocational services. To achieve objectives and increase the focus on employment, service providers will be encouraged to put greater focus on paid work for clients, and funding will move progressively towards services that provide employment related outcomes. The Government will explore funding options for services that support people in paid work. There is emphasis throughout on improving quality of services, responsive to the needs of all groups of disabled people.

A five year transitional period will, it is hoped, give providers time to adjust to the new direction and ensure that people currently in sheltered employment will have continued access to services needed. In 2001 the Department of Work and Income (DWI) had contracts with around 180 service providers, with around 22 000 people accessing vocational services through DWI funding.

A pilot to test outcome-based funding in mainstream employment assistance services began in September 2001 in New Zealand (NZ Ministry of Social Development website, April 2002). Twelve providers in four regions and a wide range of job seekers are involved. Providers contract to achieve specific outcomes for job seekers, without expectation that job seekers will receive any particular form of employment assistance. The focus is therefore on the results of service provision rather than the type of intervention. A two stage evaluation is planned. The first stage will look at the implementation of the funding approach, and the second stage will evaluate the impact and assess cost effectiveness of the new funding arrangements.

4 Addressing The Problem of Creaming

4.1 Introduction

Within a service which is funded according to progress of individuals there is always a danger that those clients most likely to reach the measured outcomes will be positively selected in some way. This might happen, for example, if providers recognise some clients as likely to need less intensive services, possibly because they already have a wider skills basis or greater previous experience of paid work. It might also happen, especially in a new or developing service, if providers recognise some clients as likely to benefit from services they are already practised in delivering and so do not have to invest in development. A results-based funding scheme rewards providers who can bring clients to the outcomes which attract payments, and thus creates incentives to serve those clients who can most quickly and easily be brought to the payment points. This process has been called 'creaming' and is a well known problem.

A corollary of selection of clients most likely to reach outcomes is paying less attention to clients thought likely to need more resource intensive services to reach funded outcomes. Leaving them behind altogether and sacrificing the later outcome payments has been referred to as 'parking'. This chapter brings together those features of results-based funding models which are held to have some bearing on the prevention of creaming and parking.³

First, it is useful to make some general points about perceived risk and opportunity. Both creaming and parking take place as a result of provider perceptions of risk and/or opportunity. Providers project forwards to the likely consequences of serving different kinds of clients and behave according to the desirability of the consequences perceived. Their perceptions may be grounded in previous experience of working with clients with different characteristics, or in assumptions about client groups with whom they have not yet worked. Similarly, perceptions may arise from previous experience of delivering the same or similar service, or assumptions about outcomes in delivering a new service.

'Risk' has a number of components, of different salience to various providers. Some providers may not want to risk the possibility of negative impacts for individual clients who 'fail' to reach measured outcomes. It may seem less disappointing and less damaging to self-esteem if some clients are not encouraged towards goals that may

³ The authors of this report feel that some stigma attaches to clients as a result of use of terms such as 'creaming' and 'parking', and would prefer not to use the terms. It has proved hard to write the report without using the terms, however, since this is the terminology which appears in the literature reviewed.

be very hard to reach. The ‘mission’ of the organisation may be influential here. Some providers may see risk of a negative effect on their own public profile if they do not demonstrate high rates of measured outcome, which might influence their market position or fund-raising potential. There may be other influences on providers’ perceptions of risk and opportunity, such as expected ‘lifetimes’ of pilot projects and organisations’ opportunities for participation in future policy developments and service delivery.

So there may be a number of strands in the creaming effect. It is the avoidance of economic risk which dominates discussion about creaming in the literature, however. Reasons for provider participation will vary, and it is possible that some may be prepared to provide a service as a ‘loss leader’. We have to assume, however, that most providers will want their service to be economically viable, at least beyond the short term when they are getting things off the ground. Providers operating on a commercial basis (now introduced into the UK WORKSTEP programme on a very small scale) will be looking to generate private profit from their service.

Making a results-based funding model work depends, therefore, on maintaining providers’ confidence that they can avoid too great an economic risk in delivering the service, and/or that they can use the financial opportunities available. In the supported employment setting, avoiding the emergence of creaming or parking means maintaining providers’ confidence that the economic risk is shared appropriately with the funder, or that there are sufficient added financial incentives in order to make it worthwhile for the provider to take extra risk. In what follows, we see how various structural features of results-based funding models aim to reduce perceived economic risk for providers, or encourage providers to take a little extra risk for some clients.

4.2 Setting Overall Payment Levels to Meet Client Needs

First, at a general level, the total amount of funding available must be sufficient to enable providers to maintain financial viability if they take on clients who are harder to help. This will be particularly important in schemes which include a competitive bidding process for contract for services, or when a programme is moving from a fee-for-service setting and there is little previous experience of assessing cost for an overall programme with a number of service components. It is a mistake to let providers, in order to secure contracts, agree overall payment levels which do not realistically reflect the costs of providing service to the target group as a whole, and the costs associated with ‘drop-out’ at all stages in the progression. Overall funding levels which are too low will encourage the development of creaming and parking, as providers learn how to adapt to the funding environment which has been created.

Using historical data to help set the overall payments is one way of ensuring that the amounts reflect real costs of service provision, as was done in setting up Milestones. Another way is to build into the design of the model extensive consultation with stakeholders including different providers, as in the design of the Alabama model. The Alabama experience also emphasised the importance of piloting a new model, and readiness to adjust funding levels found to be too low. This also happened in the Australian CBFT. Phase 1 of the trial raised concerns that the overall level of payments available did not reflect adequately disability-related employment needs of all clients. This was addressed in Phase 2 by development of new assessment instruments and by introducing a higher payment level for some clients.

4.3 Making the Various Outcome Payments Reflect Provider Risk

The theory underlying development of the original Milestones was that the number and weighting of the 'milestones' determined the risk sharing agreement between the funder and the provider (Frumkin, 2001). Each of the benchmarks or payment points must be attached to an outcome that can be measured, within an appropriate progression towards the main desired outcome. In the supported employment environment, this is retention of work which matches client goals. A finely tuned milestones-type model depends on knowing what the likelihood is of a client moving from one benchmark to the next. The benchmarks can then be appropriately 'weighted' to reflect the risk involved at each stage which requires further investment, and makes the overall financial risk more manageable by providers.

This 'weighting' is an important element of several US models which have been influenced by the Oklahoma experience, reflected in the percentage distributions of the overall payments shown in Table 3.1.

In the development of the original 'Milestones' model, the overall potential payment attached to each client was established in a bidding process, in which a probability model was used to calculate the likely risk faced by providers for the next three years (Frumkin, 2001). This used providers' own historical data about total project costs to find the average cost 'per closure' for the previous year. Comparing this with the number of clients served during that time allowed them to account to some extent for the cost of drop-outs. Providers were then asked to project forwards to the number of clients they expected to serve in future years, and the number of staff needed. There was extensive consultation with providers during this process, and in setting the six 'milestones' which represented payment points for outcomes and deciding the percentage of total potential funding which should attach to each milestone.

In establishing a results-based funding model for a new service, there may be less opportunity to use historical data on costs and client throughput, to inform the setting

of overall payments and assess the financial risk to economic viability. There may be opportunities for consultation, discussion and drawing up blueprints however.

None of the wholly results-funded models have more than six benchmarks (Table 3.1). Frumkin (2001) argues that in a wholly results-funded model too few benchmarks means that the funder is not accepting enough of the financial risk involved. It is important to put an emphasis on the final outcome, but sufficient 'intermediate' outcome benchmarks are needed to encourage providers to serve clients who may be less likely to get to the final outcome, or require additional or longer support to get there. On the other hand, Frumkin suggests, too many benchmarks lead to administrative complexity and greater reporting requirements without significant gain, as well as curbing innovation. He argues for relatively few benchmarks.

Too great an emphasis on earlier benchmarks, in ascribing the weighting, might be an incentive for 'parking'. Providers might see a financial opportunity in providing sufficient service to get as many clients as possible to earlier benchmarks, to achieve the payments then available, but see no financial need or incentive to help them all achieve further benchmarks. There may be some tension here between not weighting earlier benchmarks too high but enabling sufficient funding for expenses attached to taking on new clients. Phase 2 of the Australian CBFT incorporated a form of start-up payment to meet some of the early costs of providing a service.

4.4 Tiered Structure, to Accommodate Client Groups with Different Levels of Need

Compensating providers at a generally higher level for serving groups of people identified as having, or likely to have, the highest support needs is generally known as a 'tiered system'. This approach is developed furthest within the Oklahoma Milestones and the Australian CBFT. Having different tiers enables not only higher overall payment levels for particular groups, distributed across the various benchmarks, but also further adjustments to reflect different needs for service in order to make progress. For example, differences in the weighting ascribed to the payment points or different definitions of 'job retention', as in Milestones.

The earlier versions of the Milestones model had two payment tiers. Effectively, providers were paid 30 per cent more for serving people expected to require more intensive support services. Chapter Three explained the criteria by which some clients were defined as 'highly challenged' and how this categorisation was reflected in higher overall payment levels. Within this two-tiered system, there were slight differences in the weighting ascribed to intermediate milestones according to whether clients were categorised as having mental health problems or developmental

disabilities. For example, the model reflected the likelihood that people with mental health problems were expected to reach job retention outcomes more quickly, but require a longer period of gradual withdrawal of intensive support.

There have been further adjustments to Milestones during its lifetime. The model at the time of writing incorporates four tiers of funding. Payments are made at 'regular rate' and 'highly challenged rate' for clients requiring long term support in either a 'place and train' model or a 'preparation, place and train' model. The latter development reflects the needs of some people for more intensive service provision in terms of initial assessment of needs and goal planning, and preparation for entering a work place.

The success of a tiered system in enabling providers to serve people with different needs for support depends, of course, on how well the initial categorisation on which payments depend does actually reflect future need for support. In Phase 1 of the Australian CBFT tiered system, people's scores on a Job Seeker Classification Instrument (JSCI) assigned them to one of three payment levels for employment assistance, as explained in the previous chapter. However, the Phase 1 model was found to require modification. There were generally negative views from service providers about the suitability of using the JSCI score to classify job seekers into appropriate funding bands, and overall amounts of payments seemed insufficient to provide services to some people requiring more intensive support. There was inadequate up-front funding and lack of flexibility for people who needed extended pre-employment support, or extended services to maintain jobs. These features meant that some people were disadvantaged by the funding model, introducing incentives for both creaming and parking.

Phase 2 of the trial incorporated two new classification instruments to contribute to the overall funding classification and to a new classification for maintenance in work. Both instruments are completed by service providers, but scored by the Department of Family and Community Services managers. As shown in Table 3.1, there are now five funding levels for the first benchmarks, and four for the ongoing support and maintenance benchmark.

The New York OMH 20 per cent incentive payments for clients meeting particular criteria is effectively a tiered model. This model avoids some of the complexities attached to classifying and scoring people in relation to disadvantage and likely support needs in order to assign a funding level, by using simple historical information about hospital stays and previous employment as a proxy for need for more intensive support.

4.5 Setting a Quota

One design feature to prevent creaming mentioned by Novak *et al.* (1999b) is to require providers to demonstrate a predetermined percentage of people originally assessed as having greater needs among the successful outcomes for which they claim payments.

O'Brien (personal communication, 2002) explains that Milestones contracts moved to specifying percentages of clients who must make progress within each band when payments are claimed. This was introduced as a countermeasure for providers' tendencies to work mainly with people perceived as 'more motivated' within each band. Thus within each band, 50-70 per cent of people assessed by individual providers must get a job and a lower percentage must complete a given job retention milestone before providers are reimbursed. O'Brien reports that this is believed to have worked well, especially the job placement percentage requirement, to prevent the assessment milestone becoming, effectively, 'assess and forget'.

4.6 Person Specific Funding, to Match Individual Needs

An alternative to having a tiered structure to provide funding to match service needs of different groups of people is a structure which provides funding to match the needs of individual people. The model reported in 2001 as 'being developed' in Pennsylvania proposed that for each client an assessment of needs leads to an estimated number of hours of service requirement for that individual. This is multiplied by provider-specific hourly rates for services, and the total distributed across specified benchmarks, similar to those in other milestones models.

While such a system should have considerable potential in prevention of creaming and parking, in common with other models its success depends on the suitability of the initial assessment and projection of need for support, which can be a complex matter. It was proposed that this would be done by the Pennsylvania providers, who would be reimbursed on a fee basis. It was not clear how much control or oversight of the assessment procedures would be retained by the case managers in the Office of Vocational Rehabilitation.

4.7 Blending Payments for Services and Results-based Funding

Another way of trying to ensure that providers can afford to serve clients with a range of support needs is to 'blend' payments for particular service components into a results-based model. Table 3.1 showed several examples of this. Paying the provider an hourly fee for specific service components to individual clients, such as

assessment of needs and pre-placement preparation and development work (Kentucky), is another way of achieving the same objectives as the in-built tiers and weighting adjustments in Oklahoma Milestones and the CBFT – ensuring sufficient funding for people who may have particular support requirements.

Most of the process-funded components in blended models are ‘capped’ by a total amount payable (Kentucky) or time limits on service provided (Rhode Island). This mechanism prevents providers maximising financial opportunities by over-provision and, in effect, might act to prevent parking of clients in the earlier stages of assessment, preparation and job development. There are usually other mechanisms to prevent providers maximising financial opportunities, for example requirements for pre-authorisation in writing by employment service case-managers for Additional Support in the Massachusetts model.

Availability of substantial additional payments for ongoing support for job retention (New York) may act as a further encouragement to providers to serve clients with intensive support needs. Where there is apparently no funding provision for continuing support at work within the model, as in some of the US schemes, it is important to remember that US services which are provided within a ‘rehabilitation’ model effectively end on ‘closure’ or ‘completion’. Clients requiring further support may then be transferred on to other state or federal programmes and funding streams administered by different departments. This may also act to encourage providers to serve clients whom they might otherwise be reluctant to place in work if they had to withdraw support at a final benchmark despite a client’s continuing need.

4.8 Accepting Clients for Service Provision

As the final issue in our discussion about ways of preventing creaming and parking, aspects of client recruitment and registration would seem to be important. If providers are completely free to choose which people they accept for service provision, some will tend to choose those for whom they perceive a ‘fit’ between client needs and what the service provides. Among people not chosen are likely to be some who stretch provision furthest, including those with greatest need for support. Thus it seems that creaming could be taking place at a very early stage, even before clients get as far as registration for the programme, for example during the process of referral to the service by other organisations or case managers, or during informal enquiries and information sharing.

The authors found rather little discussion of such aspects in the US literature and this was at first puzzling. It became easier to understand on learning that in Oklahoma, whose model has been so influential, once contracts have been let to providers for employment assistance programmes with different funding levels, there is an

expectation that case managers will refer only job seekers covered by their contract, and providers will not refuse services to anybody referred.

We have not yet been able to find out whether this policy extends across other States. We understand that in Massachusetts providers do have the right to refuse a referral from case managers in the Community Based Employment Services. Reasons must be documented and will be taken into account in making future referrals. In a personal communication about referral of clients in the US system, Dan O'Brien suggests there are a number of loopholes in the 'no rejection' system, and how far people with the greatest needs actually do get access to supported employment depends on a number of issues at the level both of the provider and the state administrators of vocational rehabilitation.

In the New York OMH pilot, participants may be identified by providers, OMH or themselves, and may choose not to receive service components usually provided through VESID funding, so concepts of 'selection' and 'referral' are not comparable to those in the traditional milestones vocational rehabilitation programmes.

Access of clients to results-funded employment assistance was a key focus of investigation in the CBFT. Providers taking part in the trial were volunteers, and only 12 per cent of supported employment providers took part. The CBFT guidelines stated that service providers should accept all new eligible job seekers, but where this was not possible non-acceptance forms should be completed and returned to FaCS. This did not work well. It seems that acceptance of job seekers under CBFT funding was influenced by providers. Limited analysis of data about acceptance and access was possible, and is discussed in the following chapter.

4.9 Summary

The literature available to the authors identified 'creaming', serving clients with lower support needs at the expense of others with more intensive needs because of financial incentives, as one of the main potential disadvantages in results-based funding for supported employment. Design features in the various models to prevent creaming involve creating financial incentives to prevent adverse selection. Different approaches revolve around ways of:

- ensuring overall economic viability in the programme
- providing higher rate compensation for providing services to client groups or individuals with greater needs
- setting different benchmarks for payment purposes for client groups or individuals with greater needs
- providing additional fee-for-service funding to meet needs of individuals

- requiring a 'quota' of people with greater needs among a provider's successful outcomes
- external control and management of referral of clients to providers.

While we can see how each of these features might act to prevent creaming, it is not easy to find any evidence as to how or whether they do. This is the subject of the following chapter.

5 Reviewing the Evidence

This chapter discusses what evidence there is as to whether creaming has been prevented by design features in the various results-based funding models for supported employment. There are some relevant findings from evaluations of some of the milestones programmes in the USA and the Australian CBFT.

5.1 The Evaluations

5.1.1 Milestones in USA

The Oklahoma Milestones system has been reviewed by Frumkin at Harvard University (2001). His report is based mainly on a series of interviews with key personnel with responsibility for vocational rehabilitation services in Oklahoma, and experience in the design and implementation of the model. In his review Frumkin also refers to findings from a survey of providers in Oklahoma in 1997, conducted by Virginia Commonwealth University (VCU) soon after results-based funding became state-wide, and a further survey of 20 randomly selected providers conducted in autumn 2000.

There are a few selected findings from Massachusetts, based on programme cost data, and a CBES survey of job seekers referred to providers. These findings are reported by Frumkin, and by Thomson (2002) who reported on the Oklahoma, Massachusetts and New York OMH programmes for FaCS Australia.

5.1.2 Case Based Funding Trial, Australia

The Australian Case Based Funding Trial was ongoing in 2002, as explained in Chapter Two. Evaluation was commissioned by FaCS from Australian Healthcare Associates. Findings from the first months of Stage 1 were reported (AHA, 2000) and an interim report presented further findings from Stage 1 and Stage 2 (AHA, 2002). Methods used in the evaluation study include service provider consultations; group discussions with job seekers; analysis of administrative data about service providers and job seekers; and large scale surveys of providers and job seekers. Further details of the design of the evaluation study appear in a previous report by the authors (Corden and Thornton, 2002).

One of the main questions for the evaluation was whether employment outcomes are being achieved on an equitable basis for job seekers.

5.2 Findings

5.2.1 Milestones in USA

The Milestones approach is generally reported as a success. Findings from the 1997 VCU study included:

- reduction of waiting time for services by 53 per cent
- reduction of time between intake and job placement by 18 per cent
- reduction of clients assessed but not placed in work by 25 per cent
- reduction of time between placement and successful 'closure' by 45 per cent
- increase of 102 per cent in number of clients successfully reaching 'closure'.

Some of these findings, for example the reduction of clients assessed but not placed in work, suggest that the results-based funding was having some effect in reducing tendencies towards 'parking' that had arisen in previous fee-for-service payment systems.

The only direct evidence available about creaming is reported replies from the 20 providers surveyed for Harvard in 2000. When asked if Milestones encouraged them to select clients likely to succeed, 65 per cent of the group (13) said it did not. Replies from the others were not reported in the documents available.

While the VCU reports take an optimistic tone in respect of the likelihood of creaming, observing that data suggested 'selecting clients who were likely to succeed did not have to occur' (VCU, 2001) Frumkin (2001) takes a rather different view. He acknowledges creaming as a continuing concern, and suggests that some agencies did appear hesitant to work with people with more intensive support needs, because of the risk of not achieving later outcome payments. He goes on to suggest, however, that what might appear to some observers as creaming might be seen in a different light if the focus is kept on the aim of Milestones being to encourage work by people who are capable of work. Some people, he argued, may not be able to achieve a goal of integrated work for a sustained period, at a reasonable wage in a community setting. As such people have access to other programmes of support, their 'selection' out of access to supported employment so that all places are taken by people who can achieve 'closure' might be seen as an indicator of efficiency.

5.2.2 Australian Case Based Funding Trial

Turning to the findings from the interim report on the CBFT evaluation, care must be taken, because data presented often do not distinguish between providers of open employment, supported employment or both, or between job seekers in these different programmes. In contrast to Oklahoma, providers in the CBFT could choose

whether to participate in the new funding arrangement and which clients they accepted on to case-based funding. Overall, only 12 per cent of supported employment providers participated in the trial. Supported employment job seekers represented only eight per cent of all job seekers in the trial (compared with some 16 per cent of block-funded job seekers).

Across all providers surveyed some fifty per cent said that they had not accepted at least one potential job seeker under CBFT, and some 20 per cent of the total potential job seekers were not initially accepted by a CBFT agency. Among reasons for not accepting a job seeker were that their support needs were too high, that people were not ready for employment and because they needed further preparation or skills development. However, there were also some providers who reported that they could now accept more people with higher support needs. This was because of the higher overall funding now available and also because there was now a comparatively easier 'exit' route in the time-based closure requirement, and they were not forced to go on providing expensive services to people who did not progress.

The general conclusion in the interim report from both stages was that many providers had not significantly changed their acceptance patterns since the new payment system. However some providers explained that the CBFT created some disincentives to accept people who were thought unlikely to reach the outcome. In particular, they identified people whose condition or need for support would prevent them working eight hours weekly; people with recurring conditions which would prevent them accumulating 26 weeks work; and some people assessed as eligible for the lowest rate funding band, if this was considered insufficient to meet needs for pre-employment assistance.

Looking across all the data then available (client characteristics, service inputs and outcomes) the interim report (2002) concluded that there was no general pattern of 'under-servicing' clients who do not achieve an outcome, although there was evidence that a small number of clients might be receiving little or no support. People with higher support needs were less likely to achieve an outcome than others, but people who did not achieve an outcome received as many hours of support as those who did. It was not possible to compare outcome rates for people with different characteristics under CBFT and block funding. Conclusions were that the CBFT model had not entirely eliminated either creaming or parking. Suggestions for reducing parking even further included replacing the ongoing payments with more milestone payments; adjustment of the weightings of both the ongoing and outcome payments; and, alternatively, improved client tracking or auditing systems.

5.3 Discussion

It may seem surprising that despite identification of creaming as an important potential disadvantage in results-based funding models, there is apparently rather little direct information about what happens, especially from the USA. This is probably because focussed investigation of creaming requires a fairly complex study, following clients through routes into and through results-based programmes, and collecting data about client and provider characteristics and behaviour, and service provision, with comparable data about similar clients and providers under different funding mechanisms.

Situations in which providers have to move from fee-for-service funding to results-based funding, without change in services or client groups, provide the kind of 'natural experiment' which might be studied for this purpose. The Oklahoma setting might have been considered ideal in this respect. However, we have also seen that models can change and evolve fairly quickly. Several versions may be piloted, or included in a trial, making it more difficult to identify suitable comparison groups or enable 'before and after' analysis. When Milestones was eventually implemented state-wide, five to six years had passed since all provision for supported employment was funded on the basis of process or output.

In the final chapter, following, we focus on WORKSTEP, and the implications of some of the findings from other countries for this UK programme.

6 Implications for WORKSTEP

This review of results-based funding in supported employment systems was undertaken in the context of policy makers' concerns that the new funding model for WORKSTEP might discourage some providers from working with people with the greatest support needs. Our report thus includes rather little discussion about some of the advantages and opportunities perceived in paying service providers in this way. Chapter Two explained that rationales for moving towards results-based funding included greater emphasis on valued outcomes; increased accountability; greater efficiency and effectiveness in delivery, and greater choice and satisfaction for clients. Our lack of discussion of such potential advantages of a results-based funding approach reflects solely the requirements of this report. We have focussed on one of the main potential disadvantages of the payment model – adverse selection of people in response to financial incentives or disincentives perceived. This final chapter brings together findings which are relevant to the WORKSTEP context of supported employment.

6.1 A Tiered Structure?

Fundamental to the results-based funding models described from USA and Australia is the concept of 'scoring' or 'categorisation' of individual participants in order to be able to pay providers more for provision of services to groups or individuals perceived to have greatest needs. This approach was specifically developed as a counter-measure to creaming, and an incentive to serve people with high support needs.

Scoring a person's need for employment support is no easy task, however. Considerable resources went into developing the overall Job Seekers Classification Instrument in Australia, which collects information on 18 factors found to be associated with long-term unemployment. However, as explained in Chapter Four, this instrument proved unsatisfactory when used to assign people to different payment levels for employment assistance, and two additional new classification instruments were introduced in the second stage of the trial. The New York OMH tiered model specifically avoided some of the complexities attached to classifying and scoring people in relation to disadvantage and likely support needs, by using simple historical information about previous employment and hospital stays as a proxy for need for support.

In the UK there has been no widespread application of general vocational rehabilitation assessment instrumentation, and it seems unlikely that there are any ready-made instruments for defining objectively 'bands of need' or tools for sorting people's needs into those bands, for purposes of WORKSTEP. Developing

appropriate instrumentation would be likely to take considerable time and resources, and raise practical administrative issues which might be hard to resolve in the UK context of service delivery.

Such an approach might anyway appear to be a big step backwards, because a central component of the modernisation of the Supported Employment programme was to move away from the scoring approach – a productivity-based mechanism that drew support from only eight per cent of respondents to the government consultation. Also important, in the UK context, is the increasing rejection of categorising people on the basis of disability, and the growing support for a social model, rather than a medical model, of disability. Classifications of people as ‘highly challenged’ and criteria that include medical diagnoses and need for medication (as in the Oklahoma tiered structure) might draw little support in the UK.

There has of course been some categorisation of people within WORKSTEP, for purposes of determining eligibility for the programme. Current eligibility criteria are fairly broadly based, to identify people who face more significant barriers to working and who require additional support. Some such people are identified through their membership of pre-existing ‘groups’, for example people receiving incapacity benefits, and long-term unemployed people – simple ‘proxies’ for need for support, based on previous employment circumstances (as in New York OMH). If policy makers are interested in the idea of developing a tiered structure within the WORKSTEP funding model, one way forward might be to look for any other simple ‘proxies’ that might be useful, simple to put into operation, and fit a social model of disability.

6.2 Selection on to the Programme

To be eligible, a person must be disabled as defined by the Disability Discrimination Act 1995. They must fall into at least one of the eligibility groups, defined by benefit receipt; previous receipt of supported employment; or being at risk of losing a job because of disability. In addition, there must be evidence that other forms of support have been considered but will not enable the person to work effectively without further support.

It is currently the role of the Disability Employment Adviser (DEA) to check that the eligibility criteria are met. The DEA may refer an eligible person to a WORKSTEP provider, with background information. Alternatively, under a variation brought in after WORKSTEP started, a disabled person may be recruited directly by a WORKSTEP provider. In that case, providers who have been approved to undertake their own eligibility assessments must follow the same procedures as a DEA to check eligibility, including checks that their requirements could not be met more appropriately through other programmes. If the provider does not accept a person on to the programme,

whether referred by the DEA or not, they are asked (on form WS REF) to 'provide details of why you are unable to accept the individual for WORKSTEP'.

This process depends on discretionary decisions and on working relationships between provider and DEA. There is scope for some 'selection' of people accepted for services, both by DEAs in making referrals and by providers in accepting people or not.

Findings are that this stage of referral and acceptance is receiving increasing attention within the USA and Australia, with acknowledgement that provider involvement and/or discretionary decision making by referring agencies may influence both 'selection' or 'screening out' of some potential participants at an early stage. Equality of opportunity for access to the supported employment may depend on processes which, although taking place 'outside' the payment model, may still be influenced by knowledge of the way payments will be made.

It would appear that understanding the way in which people are referred for the WORKSTEP programme; monitoring reasons for non-acceptance by providers; and monitoring the characteristics of people not accepted will all be important. There is a role for contract managers here, and policy makers may like to consider clarification within provider contracts of Jobcentre Plus expectations in relation to acceptance of referrals.

6.3 The Blended Model

There are four benchmarks for outcome payments in the payment model for new entrants to WORKSTEP. The overall aim for the programme is that 30 per cent of 'new' clients recruited after April 2001 achieve the third benchmark (progression) over two years. This suggests that providers may be carrying considerable risk in achieving and sustaining suitable work for participants. According to the theory underpinning the US models, which weights the benchmark payments according to the risk involved in getting there, the amount paid for achievement of the first WORKSTEP benchmark appears relatively high. Achieving a Development Plan is reimbursed with nearly 30 per cent of the total outcome based funding available (with rather little risk attached, presumably), and half of this amount is available for the next benchmark, placement in supported employment. We understand that for some participants, placement in supported employment can follow on fairly rapidly after achieving the Development Plan, or even occur together. This tends to further increase the percentage of reimbursement from outcome payments at this early stage, when Job Start payments are included.

A reason for having a relatively high payment for the Development Plan was the importance attached to this, given the limited attention to development in the old

Supported Employment Programme. Key requirements of providers are specified, in terms of reflecting the client's abilities, aspirations and job goals. The plan currently must be approved by the DEA. However, there are no requirements for subsequent outcome payments to be linked back to the plan. For example, payments for placement do not depend on the supported work placement matching the goals set out in the plan. The US models lay great emphasis on maintaining quality of service and ensuring people are in valued work by requiring evidence that the job matches the client's choice and needs, as set out in the employment plan. As explained in Chapter Two, this helps to maintain quality of service and progression. In the US models, put simply, if the development and planning is not done well, providers will not be able to make placements and thus will not be paid, and if placements which are made do not match clients' aims, as set out in the plan, they will still not be paid!

We understand that there will be an annual ten per cent 'participation check' by Contract Managers for purposes of audit. This seems a fairly modest appraisal of the investment in the large payments for Development Plans, and assessment of whether clients are receiving appropriate support and are in quality jobs. External monitoring for quality and progression is in-built in the case-managed state vocational rehabilitation service in USA, and considered an important control.

There is probably more similarity between WORKSTEP and the Australian CBFT blended models in terms of the distribution of the overall payment available between benchmarks, and availability of fairly large amounts of money for ongoing support in work. However, one of the differences is that there is currently no time limit or cap in WORKSTEP in the monthly payments available until the provider can claim the next outcome payment for progression to unsupported employment. This may be related to the apparently high risk that the WORKSTEP provider faces in not reaching the outcome for progression. However, as explained in Chapter Three, there are no other examples of fees for service which are not capped by amount or time in other blended funding models. This feature within WORKSTEP might provide some incentives for some providers to stop aiming for the progression benchmark. When assured of £320 per month once a client is settled in employment, it might seem not worthwhile to put in the extra work needed to achieve a payment which is not even worth twice the monthly maintenance payment

One way of introducing a financial incentive to shorten the period of ongoing support, might therefore be to lower monthly rates so that it was financially 'not worth' keeping at this level clients who might attain the final outcomes, with a more intensive service. Relevant here, however, is that only one third of clients may be expected to reach final outcomes over two years. Realistically, WORKSTEP providers may have relatively large numbers of clients who continue to require ongoing support services after placement, and providers' economic viability may depend considerably on such fee-for-service funding. Reducing these payments to strengthen incentives not to

'leave behind' these clients with greater needs might significantly reduce the service offered to this apparently large group.

6.4 Policy Implications

Within the changing WORKSTEP programme the need remains to protect those participants who will continue to need considerable support to sustain employment. Unlike the situation in USA, people who cannot reach the last benchmarks in WORKSTEP do not have recourse to other forms of supported work experiences, and providers must not be discouraged from serving them. This represents quite a challenge for the WORKSTEP payment model.

It might be worth considering whether potential incentives for adverse selection could be reduced further by:

- strengthening the monitoring of and increasing understanding of the ways in which people are referred for WORKSTEP and accepted on to providers' programmes (or not)
- making more links between the Development Plan and later benchmarks
- making continuation of ongoing payments after a given time period contingent on revisiting or reviewing the Development Plan, with management of this process by a third party such as a DEA
- introducing 'targets' in terms of proportions of participants achieving later benchmarks which each provider must meet.

Adjustments or modifications of the kind suggested above would require full discussion before implementation. Our review highlighted the importance attached in other countries to the value of continuing dialogue and consultation with all stakeholders in achieving a payment model that works well.

References

AHA (2000) *Evaluation of the Disability Employment Assistance Case Based Funding Trial: Stage 1, Final Report*, Canberra: Australian Health Care Associates.

AHA (2002) *Case Based Funding Trial Evaluation*, Interim Report, Canberra: Australian Health Associates.

Brooke, V., Green, H., O'Brien, D., White, B. and Armstrong, A. (1999) 'Supported employment: Its working in Alabama', in G. Revell, K. Inge, D. Mark and P. Wehman (eds), *The Impact of Supported Employment for People with Significant Disabilities: Preliminary findings of the National Supported Employment Consortium*, Richmond VA: Virginia Commonwealth University.

Commonwealth Department of Family and Community Services (2002a) *Complete Report: Case Based Funding Trial Final Evaluation Report*, Canberra: Commonwealth Department of Family and Community Services.

Commonwealth Department of Family and Community Services (2002b) *Consultation Paper: Implementing Case Based Funding for Disability Employment Assistance*, Canberra: Commonwealth Department of Family and Community Services.

Corden, A. and Thornton, P. (2002) *Employment Programmes for Disabled People: Lessons from research evaluations*, In-house report 90, London: Department for Work and Pensions.

CRG (1996) 'Focus Groups Report: A review of contractual arrangements for supported employment', Report submitted by CRG to the Employment Service.

Employment Service (1999) *The Supported Employment Programme: A consultation on future development*, Sheffield: Employment Service.

Employment Service (2000a) *The Supported Employment Programme: A consultation on future development, Summary of Responses*, Sheffield: Employment Service.

Employment Service (2000b) *Modernising Supported Employment: Programme design document*, Sheffield: Employment Service.

Frumkin, P. (2001) *Managing for Outcomes: Milestone contracting in Oklahoma*, Kennedy School of Government, Harvard University.

Hodge, M. (2000) 'Ministerial Statement on Modernising Supported Employment', Margaret Hodge, Minister for Disabled People.

Novak, J., Mank, D., Revell, G. and Zemaitis, N. (1999a) 'Initiatives influencing the emergence of results based funding of supported employment services' in G. Revell, K. Inge, D. Mank and P. Wehman (eds), *The Impact of Supported Employment for People with Significant Disabilities: Preliminary findings of the National Supported Employment Consortium*, Richmond VA: Virginia Commonwealth University.

Novak, J., Mank, D., Revell, G. and O'Brien, D. (1999b) 'Paying for success: Results-based approaches to funding supported employment' in G. Revell, K. Inge, D. Mank and P. Wehman (eds), *The Impact of Supported Employment for People with Significant Disabilities: Preliminary findings of the National Supported Employment Consortium*, Richmond VA: Virginia Commonwealth University.

NZ Department of Labour (2001) *Pathways to Inclusion: Improving vocational services for people with disabilities*, Wellington, New Zealand: Department of Labour.

NZ Ministry of Social Development (April 2002) *Outcomes Based Funding*, website of New Zealand Ministry of Social Development,
http://www.msp.govt.nz/key_initiatives/outcomesbasedfunding.html

Riddell, S. (2002) *Work Preparation and Vocational Rehabilitation: A literature review*, WAE 136, Sheffield: Department for Work and Pensions.

Thomson, S. (2002) *Report on US Milestone Based Funding Programs*, Canberra: Australia Department of Family and Community Services.

VCU (2001) *Paying for Success: Results Based Funding Newsletter (Spring)*, National Supported Employment Consortium, Richmond VA: Virginia Commonwealth University.

VESID (2002) Fact sheets provided by New York Office of Vocational and Educational Services for Individuals with Disabilities.

Wehman, P. and Kregel, J. (1995) 'At the crossroads: supported employment a decade later', *Journal of the Association for Persons with Severe Handicaps*, 20, 4, 286-299.

In May 2002 the Social Policy Research Unit at the University of York conducted a review of results-based funding in supported employment. The context was policy-makers' concerns that the new funding model for WORKSTEP, introduced in April 2001, could discourage service providers from working with supported employees with the greatest support needs.

The authors drew on published and unpublished material relating to results-based funding systems in the USA and Australia. The report sets out the rationales for results-based funding and discusses potential opportunities and drawbacks. It provides descriptions of the main structural features of the models studied and the contexts in which they operate. The problems of 'creaming' and 'parking' are discussed, and what evidence there is on prevention of creaming through design features is reviewed. The report concludes with considerations for WORKSTEP.